



FEMA Grant Recipients Protected from Income Taxes April 22, 2005

Washington, DC – Thanks to legislation recently approved by Congress, nearly \$42 million in disaster mitigation grants for California property owners from the Federal Emergency Management Agency (FEMA) will not be taxed, Senator Dianne Feinstein (D-Calif.) announced today.

On April 15, the President signed the legislation, HR1134, including a Senate amendment to protect grant recipients from being required to pay taxes retroactively. Without the new law, grant recipients would have been required to pay taxes amounting to tens of thousands of dollars. Those who may have already paid the taxes are advised to file an amended return.

In the Senate, the amended legislation was co-sponsored by Senator Feinstein along with Senators Max Baucus (D-Mont.), Chuck Grassley (R-Iowa), Mary Landrieu (D-La.), Trent Lott (R-Miss.), David Vitter (D-La.), Bill Nelson (D-Fla.), Kit Bond (R-Mo.), and Mel Martinez (R-Fla.). In the House, Congressmembers Anna Eshoo (D-Calif.) and Mark Foley (R-FL) and 84 other members sought the legislative remedy.

“The State of California has experienced devastating natural disasters in recent years,” Senator Feinstein said. **“This law will help prevent more disasters by enabling property owners and to continue to prepare their communities for future emergencies without facing large tax bills in the process.”**

FEMA has three disaster mitigation grant programs – the Hazards Mitigation Grants Program, the Pre-Disaster Mitigation program, and the Flood Mitigation Assistance program – which provide funds to municipalities and individual property owners for a variety of mitigation projects.

A June 2004 IRS ruling stated that these mitigation grants may be subject to income taxation as taxable improvements to public property. This was never the case previously and those receiving the grants had been told by FEMA, the California Office of Emergency Services, and local officials that they were receiving tax-exempt grants when the funds were given out.

According to State Office of Emergency Service and FEMA officials, the communities most impacted by the ruling include Butte, Lake, Los Angeles, Mono, Napa, Sacramento, San Joaquin, Santa Cruz, Sonoma, Yolo, and Yuba counties, and the cities of Daly City, Laguna Niguel, Malibu, Napa, Roseville, San Diego, and Santa Barbara.

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